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Bringing MRO buying under control

How to analyze price proposals

Vendor rating puts profit in purchasing

Fifteen ways to cut steel buying costs

PurchasingWorld

May 1987 Vol. 31 No. 5

Special report: MRO buying

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PW PREDICTS

Robert S. Reichard, executive editor

PMs can live with inflation surge

Prices may be moving up more briskly these days—but nobody seems worried about a big inflationary surge.

Wharton Econometrics predicts that industrial price averages over the 12-month period ending 4Q 1987 will rise by 4.4%. *PurchasingWorld* readers are even more optimistic—they see only a 3.1% increase this year. Not a single respondent to our survey anticipates an advance over 6%. This is in contrast to last year when many purchasing executives experienced lower prices in many product areas. But our readers' new 3% + overall inflation estimate is one that most say they can live with.

They also say that the upward price trend comes as no surprise—they gave similar estimates about 1987 at the beginning of the year.

But nobody is pushing the panic button because 1) competition remains keen, 2) there's ample capacity, 3) wage costs are still relatively restrained, and 4) money costs are expected to stay near current levels.

Not even our #1 inflation fighter, Paul A. Volcker of the Fed, seems overly disturbed. His feeling: Greater inflation this year can be overlooked if it's a temporary development due only to higher prices of oil and goods imported from countries whose currencies have strengthened against the dollar. Expressed another way, while external factors on prices (oil and the dollar) are making themselves felt, the underlying rate of inflation remains under control.

What, then, is this underlying rate of inflation? Most economists today put it in the 3-4% range—where unit labor costs are settling this year. This will have considerable impact.

Nor does the supply-demand side of the equation indicate a dramatic change in prices. Domestic industry operating rates remain (and will probably hold) in the 80% range because industrial production should rise only 2.5-3% this year.

There are a few industries where operating rates are relatively high—notably paper and plastic resin. But these are exceptions. The overall operating rate would have to approach the 85% level for any serious demand-pull inflation to develop—and that's just not in the cards.

This picture of oversupply is the same globally. Free World growth—in the sluggish 2.2% range—is hardly enough to offset hefty global capacity excesses in such industries as autos, steel, computers, semiconductors, heavy equipment, and textiles.

This excess should make foreign producers more hesitant to raise prices to U.S. customers every time the dollar weakens. Wherever possible, they'll continue to absorb at least part of the currency impact. In any event, the "exchange rate" effect probably won't boost the overall U.S. price level by more than 1% in 1987.

PM salaries

Purchasing managers haven't been doing badly in the salary sweepstakes. A new Administrative Management Society (AMS) survey suggests a 3.4% overall increase over the past year. This compares to boosts received by other middle managers. And this increase is accompanied by only a 1.9% advance in the cost-of-living index. Implication: Buyers' real incomes went up about 1.5% on average in 1986.

But this could be deceptive because there were considerable differentials about this average—depending on the type of industry and region involved (see chart).

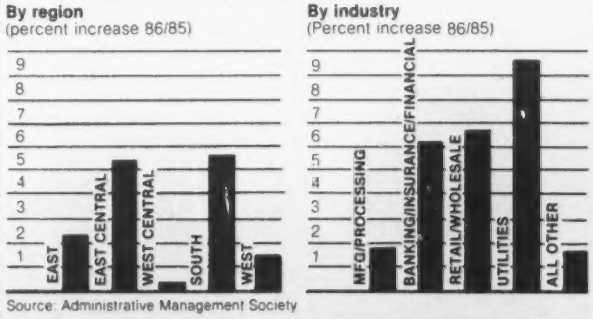
On a geographical basis, PMs working in the South and East Central regions of the country tended to fare best--receiving annual increases of 5.7% and 5.5%, respectively. On the other hand, those working in the West Central and Western parts of the nation experienced only 0.3% and 1.4% boosts, respectively.

Variations, when viewed from an industry perspective, are even more pronounced—ranging from a 9.6% boost for PMs in the utility area to only 1.9% for manufacturing/processing.

Not only did utilities fare best in percentage gains, but they are also managing to pull down the highest purchasing salaries ($46,900 on average). In contrast, banking/insurance/financial PMs receive only $31,300 and manufacturing/processing PMs $38,300. The all-industry, all-area average PM salary is $36,900—$1,600 per year above the all-middle manager reading ($35,300).

Purchasing managers lagged behind plant managers and sales managers whose salaries averaged $46,200 and $43,200, respectively. On the other hand, buyers did considerably better than middle managers in fields such as warehousing, administrative services, cost accounting, employment, and customer services.

How PM salary increases vary



Source: Administrative Management Society

PW PREDICTS

Paper

CURRENT SITUATION: This industry is off to a fast start for 1987. Demand is up and most prices have advanced due to operating rates in the 90s. Linerboard should hit $380/ton and pull up corrugated tags with it. Southern and Northern bleached softwood pulp are near $560/ton and $585/ton, respectively. Newsprint will hit $600/ton by midyear. **Coated paper and uncoated free sheet are exceptions.**

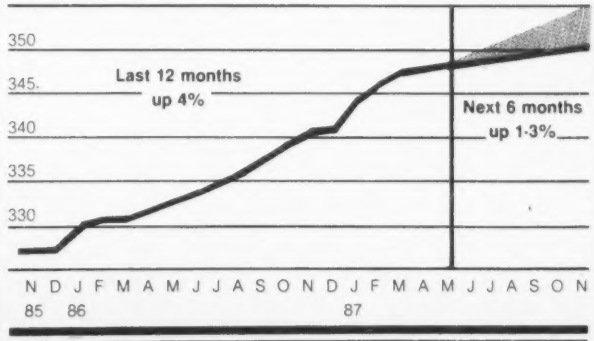
DEMAND: Look for another year of solid growth as exports combine with increased domestic gains. Low inventories are also a positive factor in the overall demand outlook for 1987. **Total paper and paperboard production should top 73.1 million tons, reflecting a 2.7% jump in domestic consumption and a 7-8% increase in exports.** Most grades will post production gains: kraft linerboard and corrugated (3%), uncoated groundwood (2%), uncoated free sheet (4%), and coated papers (3.5%).

SUPPLY: Snug markets are projected as most types of paper and board continue to operate in the 90%+ range. The exception is in coated: a 9%+ increase in potential will push operating rates down from 92% in 1986 to 87% in 1987. **Overall paper and board capacity will rise only 2.3%—a bit under the 3% output gain.** No shift from this market balance is projected for 1988 or 1989 where preliminary capacity gains will be 1.8% and 1.3%. But these figures may be conservative as new firms add to overall plant and equipment plans.

PRICE OUTLOOK: Advances should continue but they'll be more subdued than over the past six months. Two exceptions: 1) corrugated, where converters will move to bring tags in line with higher linerboard quotes, and 2) coated, where overcapacity should continue to cause shaky markets. Lingering softness is also possible in uncoated free sheet.

Paper & product prices

(Index: 1967 = 100)

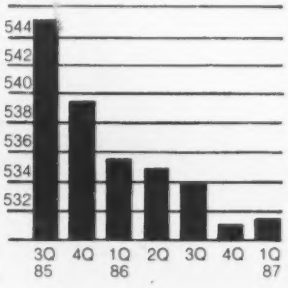


Computers

In a move to make room for the newly introduced PCs, IBM is cutting tags on some of its older models by as much as 35%. This move may force rivals to follow suit if they want to continue their strategy of undercutting IBM quotes. In other news, one firm is dropping its workstation prices 36% to $5,000 in a move to halt possible capture of this market by the new, more powerful PCs. The cut, adds a company spokesman, makes these workstations (used by printers and engineers) less costly than comparably equipped PCs.

Bituminous coal

(Index: 1967 = 100)



Coal

Figure on another small overall price decline for 1987. Right now the betting is that average quotes (FOB mine) could fall to $24.30/ton—about 30¢/ton under last year. Also worth noting: Spot markets now run 15% under contract levels. Credit softness to a combination of overcapacity and competitive pressures from other energy sources. But despite low quotes, demand gains will be modest—with totals rising only 1% (to 904 million tons) this year. One reason: A drop-off in both exports and metallurgical coal use.

Zinc

Labor uncertainties have been keeping market prices relatively firm—the metal is moving in the 37-38¢/lb range. But there's plenty to go around (inventories at latest report were up 12% over the previous month—reaching 24,735 tons). Lackluster consumption is likely to keep a lid on prices, as reduced auto demand offsets increased per car use of galvanized steel. In any case, it's hard to see overall 1987 slab metal use rising much above last year's estimated 975,000 ton level. The long-term trend is hardly bullish either—with little significant change in consumption noted now for three years running.

High-density polyethylene

Producers are trying to reverse recent softness—and have just posted a 3¢/lb increase. The aim is to bring quotes up from recently depressed levels (27-29¢/lb for the injection molding grade and 28-30¢/lb for the blow molding grade). But chances of the entire boost sticking are rated only 50-50—despite high 95% operating rates and continuing good demand. One buyer reports his entire requirements through June are covered at the

Steel

CURRENT SITUATION: Prices have been holding up well—despite USX strike settlement. Reason: Good demand (mills are booking sheet orders for June and July delivery)—with a 17% share of domestic shipments before the strike, the firm has been moving back into production slowly—averting a price war. Prices have been moving the other way—mills are asking for a $15/ton boost in sheet steel be June 1. **If successful, this would bring the average cold-rolled quote to around $455/ton.**

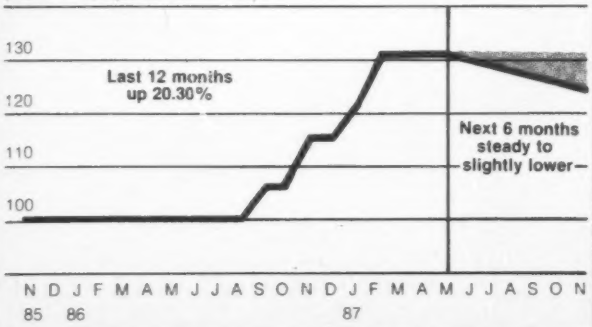
DEMAND: Some near-term seasonal slowdown is anticipated. For the year, about a 65-66 million ton shipment total—vs. 70 million of 1986. Reason: **Reduced consumption by construction and transportation.** About 10.5 million cars are likely to be sold this year (vs. 11.6 million in 1986)—with truck sales dropping from 4.92 million units in 1986 to 4.6 million in 1987. Construction softness will reflect weakness in multifamily housing units and commercial and office building activity.

SUPPLY: There's still too much capacity—the AISI utilization yardstick holds in the low 70% range. The industry is rationalizing potential. Raw steel capability is expected to drop to 112 million tons by yearend. That is still enough to support shipments of 80 million tons/year. **And imports are expected to come in at a relatively brisk 1.6 million ton pace**—accounting for 20% of total needs.

PRICE OUTLOOK: Market tags should stabilize or soften by summer or fall—despite recently announced increases By then, USX should be in full production. 1987 is not going to be a banner consumption year. And prices will creep up again as costs rise and capacity rationalization continues. **For 1988: A 4% advance in overall mill products.**

Steel prices

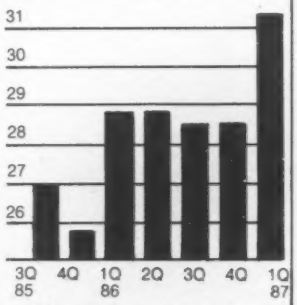
Cold-rolled sheet
(Index = 4th quarter '85 = 100)



low prices of the first quarter. Still others cite aggressive selling by two producers. Best bet: a 1-2¢/lb advance—with perhaps a similar increase for the upcoming third quarter.

Polyvinyl chloride

(transaction price—pipe grade ¢/lb.)



Polyvinyl chloride

Prices continue to move up. Pipe grade material now commands as much as 33¢/lb (vs. only 28¢/lb last October). Nor is that the end of the line, with tags expected to move up another 1-2¢ by midyear. Behind that advance: Tight supplies, good demand, and rising costs. On the supply side, producer inventories are at their lowest point in two years despite all-out production. And on the cost front, chlorine tags have jumped by close to 10% in recent months. Demand is also moving up. A 3% gain is seen for 1987, all on top of last year's big 10% jump.

Copper

The late winter rally has run out of steam—with the red metal still unable to break through the 70¢/lb barrier. One of the problems: Just so-so demand as several markets—notably autos, construction, and machinery—struggle to reach last year's levels. Domestic consumption could actually show a fractional decline from last year's estimated 2.03 million ton total. As such, even with relatively low inventories, prices for the year are not likely to average much above last year's 66¢/lb. One thing for sure, any sustained rise over 70¢/lb is highly unlikely—for it would quickly bring a lot of currently idled capacity back on stream—with a resulting weakening of prices.

Trucking rates

It looks like another good year—with shippers being hit with only fractional rate increases. At least that's how analysts at Standard & Poor's see it. Their basic prediction for Class I motor carriers: a 1% increase in TL shipment rates—with LTL tags moving up at only a slightly faster 2% rate. That would be a repeat of last year's pattern and well under the previous year (1985) when TL and LTL shipment rates advanced 4.6% and 2.8%.

Air freight

More rate reductions could be coming as competition heats up. Sign of the times: Federal Express

rate reduction to fend off inroads by United Parcel Service and other carriers. A spot check of the industry confirms the softness, with widespread reports of overcapacity, discounting, and increasing pressures from customers for both better service and lower rates. One likely result: A series of mergers, buyouts, and bankruptcies over the next few years. Nevertheless, volume should grow—with an increasing emphasis on lighter, more time-sensitive products which can benefit from air cargo service.

Nickel

(Dealer cathode $/lb.)

1985	3Q	2.25		3Q	1.82
	4Q	1.91		4Q	1.74
1986	1Q	1.88	1987	1Q	1.74
	2Q	1.92			

Nickel

Competition continues to put downward pressure on prices—with plating grade metal fetching only $1.80/lb in recent weeks on dealer markets. Current softness, aside from lackluster demand and oversupply, may stem from Russian sales to Europe. Sold through the LME at relatively low prices, it's forcing all producers to keep tags low if they want to move their metal. In other news of interest to buyers, Falconbridge is testing (in Europe) a new electrolytic metal aimed at the continuous charging and foundry market.

Aluminum

Markets remain buoyant. Recent price boosts, for example, have been posted on unalloyed ingot, extrusion billet, and a host of flat-rolled products. But the question is how much longer the upward trend will continue. Some big users are now indicating they may hold off on new orders in the hope of some market softness by fall. Certainly consumption estimates would seem to suggest some easiness. On a Free World basis, totals should do little more than equal 1986 levels. Superimpose this on expectations of as much as a 5% production rise, and some inventory buildup may be in the making—with ingot again tending to fall back toward the 60¢/lb level.

Chemicals

First quarter firming is expected to spill over into the second and third quarters—especially for key big-volume chemicals and plastic resins. Reasons: improving demand, higher operating rates, and rising feedstock costs. On the latter score, prices have recently moved up sharply for naphtha, ethane, propane, benzene, and toluene. Similarly, monomer tags are up for ethylene, propylene, styrene, and vinyl chloride. More increases, though somewhat more subdued, lie ahead—with both overall industrial chemicals and plastic resins moving up about 3-4% at annual rate over the next six months.

Electronics

Electronics markets may firm this year, according to analysts at Henderson Ventures. The California-based consulting firm sees semiconductor sales rising by 20% in current dollars vs. the 5% gain in 1986. Next year's increase is forecasted to be 22%.

The less volatile passive components sector will also see some demand acceleration. Increases for 1987 and 1988 are expected to be 11.8% and 13.9% vs. a small 3% gain in 1986.

Much of the demand optimism in semiconductors is due to the ending of last year's inventory drawdown. By the end of 1986, electronic equipment manufacturers had exhausted their excess inventory. So OEMs will no longer have this source of supplies to use for their production requirements. And because purchases in 1986 were way below production needs, there will be a catch-up factor in 1987.

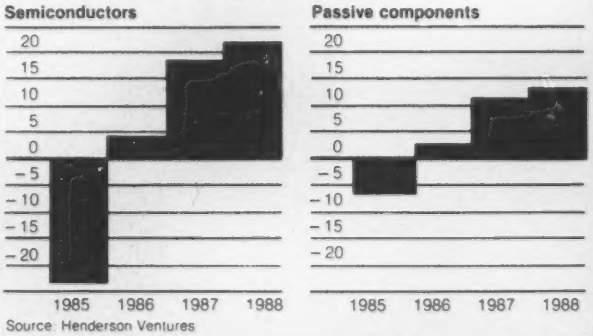
Thus a 20% increase in 1987 semiconductor purchases is predicted at a time when production of electronic equipment is expected to grow by only 9.5%. Commercial sectors should fare best, rising 11.6% this year vs. last year's 3% decline. But military electronics will decelerate from a 9.0% growth rate in 1986 to only 4.4% in 1987.

In the commercial sector, the most rapid growth will be in the computer and office area where a 13.6% gain is projected—a major turnaround from the 10% decline in 1986. Storage devices and CPUs will be especially strong.

Industrial equipment and instruments, aided by firming exports, will also do well in the commercial sector—with an 11.1% growth rate vs. the 2.7% advance in 1986. Communications equipment will be the slowest growing commercial area (because of a slowdown in on-site customer equipment), but there should be enough upward pressure to cause an 8.6% overall increase this year—well above the 4.2% gain in 1986.

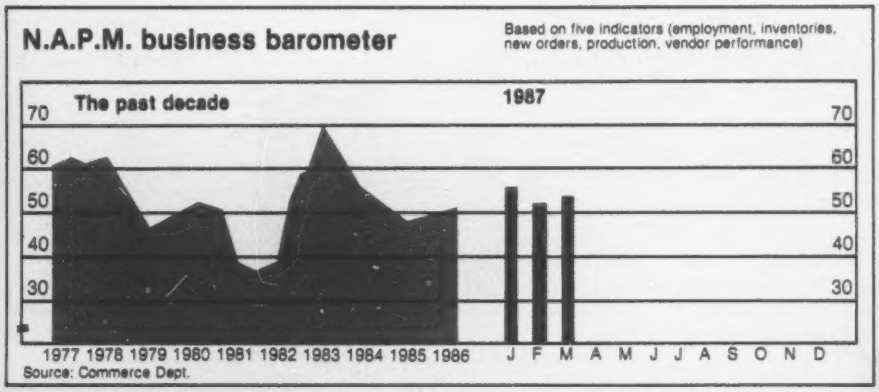
Electronic component demand trends

(Percent change in current dollars)



Source: Henderson Ventures

BUSINESS DATATRAK


N.A.P.M. business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1987
70
60
50
40
30
1977 1978 1979 1980 1981 1982 1983 1984 1985 1986
J F M A M J J A S O N D
Source: Commerce Dept.

KEY ECONOMIC TRENDS

Upward, still, but gradually

Don't expect the current lackluster—though still upward—business pattern to change any time soon.

The basic problem: consumers are taking a breather after last year's big buying splurge when consumption outlays jumped a hefty 4.1% in real terms.

Some of the other sectors are showing signs of perking up. Capital spending prospects are looking a bit better now that tax uncertainties are over and operating rates are beginning to edge up. The weaker dollar—by shifting more orders to domestic firms—can't be ignored either.

These alone can't really put the economy back on a fast track. This can probably best be appreciated by looking at the N.A.P.M. business barometer (see chart). It remains just barely in the positive (over 50) range—hardly a harbinger of any major spurt.

A look at family buying plans, meantime, points up the problems in the consumer area. Note from the chart that totals are actually under the highs of last year. In the key auto area, only 3.9% contemplate the purchase of a new vehicle any time soon—far under the 5% and higher rates of last year.

Major appliances—showing a level pattern *vis a vis* 1986—are a bit more encouraging. That's still not the same as a gain—so appliances have to be regarded as little more than a neutral factor.

On a rosier note, consumers—contrary to conventional belief—are really not that overextended. The debt/income ratio is high, but some of this reflects the growth in temporary card credit. Also, it doesn't take into consideration the facts that 1) maturities have lengthened, thus holding down monthly payments, and 2) there are more young adults around, people who tend to borrow more than average amounts.

This latter demographic shift could be one reason why housing starts continue at above a 1.7 million annual rate—not that much under last year's peak 1.82 million total. Keep in mind, though, that a level pattern is not a rising pattern; no contribution to GNP here.

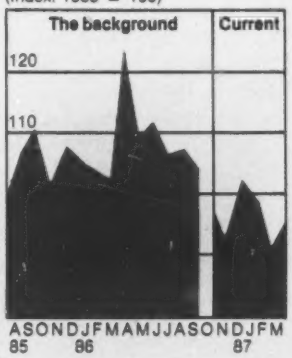
Construction awards, including other types of building activity besides housing, actually lag that of a year ago.

A third chart, on durable factory orders, tells much the same story. This bellwether of near-term industrial production continues to zigzag—again without any discernible positive movement.

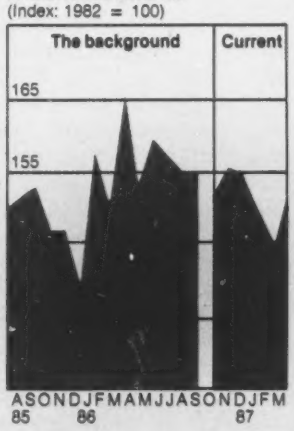
Nevertheless, some overall gains in both output and GNP still seem likely. Consumers (bolstered by a small disposable income gain) are likely to spend a bit more in

Leading Indicators

1. Consumer buying plans
(Index: 1985 = 100)



2. Contract awards
(Index: 1982 = 100)



3. Durable goods orders
(Bil. of $, seas. adj.)

areas other than housing, appliances, and cars.

A shift in inventory trends seems to be in the making. While nobody is about to go on a buying binge, some additions will be needed this year following last year's big stock-paring drive. Current projections call for about a $14.5 billion increase in real holdings (GNP basis) —about $8 billion more than in 1986. This has to have positive impact.

All this, combined with industrial production increasing at a 2% annual rate through summer, and some possible acceleration, will give us a 3-4% pace toward year's end.

Midwest drives fleet costs down

National averages can be a bit misleading when estimating fleet car operating and ownership costs. A new Hertz study suggests a 32% differential among 20 major American cities. That's 16.7¢/mile.

Los Angeles, San Francisco, and New York are the most expensive locations and have been for seven years (see chart). It costs about 60¢/mile to drive a new compact (held five years and driven 10,000 miles per year) in each of these cities.

At the other end of the spectrum are many Midwestern cities (including Milwaukee, Cincinnati, Cleveland, Pittsburgh, and Minneapolis) where costs average under 50¢/mile vs. the 20-city average for compacts of 52.5¢/mile.

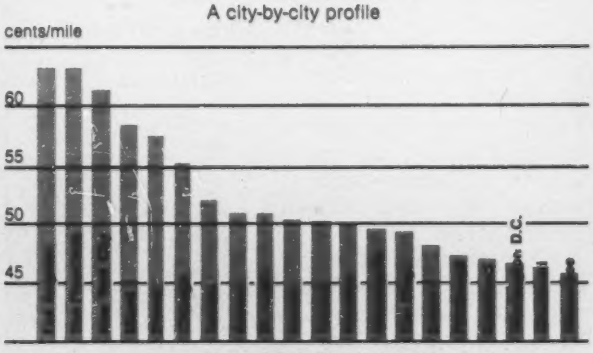
Estimated 20-city averages for other than compacts (also bought new and driven 10,000 miles for five years) are: subcompacts (43.8¢/mile), mid-sized units (60.8¢/mile), and standard-sized cars (68.2¢/mile).

The Hertz study further adds that costs in general have risen only 1¢/mile (under 2%) for compacts from 1985 to 1986. The increase reflects higher sticker prices, insurance, licenses, etc.—items which offset lower car interest rates and gasoline costs.

The study doesn't make any projections for the current year. But given recent boosts in both gasoline and car sticker prices, another possibly larger increase seems likely.

How driving costs vary*

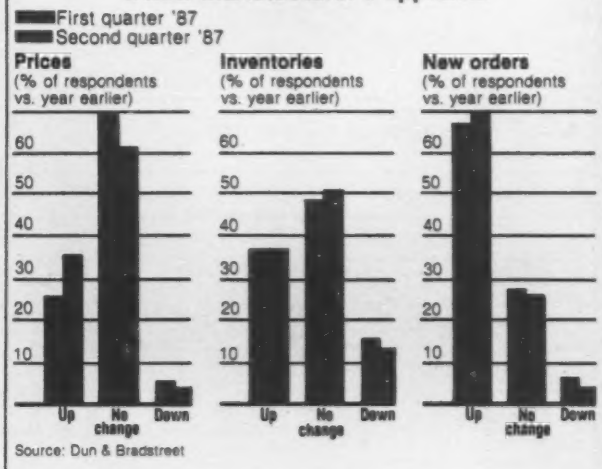
A city-by-city profile



* Assumes new compact car driven 10,000 miles/year & held for 5 years.

Source: Hertz

Business trends: a new manufacturer's appraisal



Source: Dun & Bradstreet

Other key findings of the survey:

- Biggest city-by-city variations are in the category of insurance, licenses, and fees. Figures range from 10.9¢/mile to 27.7¢/mile.
- To reduce overall costs, motorists are continuing to buy smaller cars with fewer options, driving them less, and keeping them longer. Vehicle age, for example, is up 29% over the past 14 years.
- Tolls and garaging are excluded from all cost computations. The former can add anywhere from 2-5¢/mile. Garaging costs from 5-25¢/mile more.

Business analysts still bullish

The nation's businessmen remain quite bullish.

According to the latest Dun & Bradstreet "expectation" survey, more than 70% of 1,400 top executives now anticipate second quarter gains (vs. a year earlier) in both sales and orders.

But the advance will probably mean a modest increase in the inflation rate. Some 35% of manufacturers see second quarter prices running above a year earlier, compared to the 26% reading of three months earlier.

Despite the change in price rise expectations, Joseph W. Duncan, D&B's corporate economist, is not overly concerned. "While the latest survey shows a sharp gain in the percentage of businesses planning price increases, the actual increases in the level of prices will be relatively small," he explains. He predicts only a modest increase in the overall inflation rate.

Inventory trends are not expected to change all that much. The 37% who feel some increases may be necessary to accommodate a faster business pace is precisely the same figure noted three months earlier.

Duncan, commenting on the basically upbeat forecast, adds that "the decline in the dollar over the last two years is finally

having an impact on the order books of U.S. manufacturing companies—reflecting our increased competitiveness in both domestic and overseas markets."

The recent tax reform, adds Duncan, could be another plus factor. He feels new tax rules could have a favorable impact on both profit expectations (especially among small businesses) and consumer spending, as the average family experiences a small boost in take-home pay.

CURRENT PRICES

Energy sector flattens stats

Industrial price hikes—as measured by Uncle Sam's Bureau of Labor Statistics—have flattened out after a rather substantial advance in early 1987.

The leveling off has been brought on by new weakness in the energy sector—as diesel oil, residual fuel, and electric power all edged lower over the latest available month. These declines were enough to offset some edging up in gasoline, home heating oil, and jet fuel—and made for an almost 1% fall in energy price averages (see chart).

Take away energy, however, and the upward drift of the first quarter seems to be continuing. This is especially evident in chemicals where organic chemicals and plastic resins rose 2.1% and 1.3%, over the most recent 30-day period.

Construction materials also moved up over the past month. Increases were recorded in fabricated metal products, switchgear, switchboards, millwork, plywood, and heating equipment. The only notable declines were in cement and gypsum products.

Paper also remained buoyant as new boosts were posted in paperboard and corrugated cartons. Here, too, there were exceptions as paper (except newsprint) tended to soften a bit.

A similar mixed upward-tilting pattern was noted for component parts.

Increases were reported for bearings, motor vehicle parts, turbine parts, and aircraft engines and parts.

Metals continued to show a mixed pattern. Steel and aluminum moved up, but copper, zinc, and lead all softened.

Government price watchers were generally upbeat about the new numbers. As one BLS spokesman said, "It confirms that things are pretty much

This month's breakdown

	Latest level (March)	% change Month ago	% change from: Year ago
Bearings	358.3	0.6	1.2
Bolts, nuts, etc.	278.2	0.1	1.0
Chemicals, inorganic	291.6	−0.3	−1.9
Chemicals, organic	341.7	2.1	−3.5
Concrete products	324.6	−0.2	−0.1
Corrugated cartons	292.0	0.8	11.1
Cutting tools, small	293.2	−0.1	1.3
Electric lamps (bulbs)	349.9	0.6	1.1
Electronic components	201.7	−0.8	0.7
Fans and blowers	372.4	0.7	1.2
Foundry and forge products	362.8	−0.1	−0.5
Fuel oil (residual)	591.8	−5.3	−8.1
Furniture, commercial	323.8	0.2	3.0
Gasoline	368.5	−0.1	−0.6
Glass, flat	234.6	0.1	2.2
Glass containers	404.2	−0.1	2.5
Gypsum products	327.3	−4.1	−7.0
Hand tools	392.4	0.2	2.5
Hand tools, power driven	242.6	0.0	2.7
Industrial furnaces	401.3	−0.4	1.4
Integrating and measuring instruments	239.7	0.4	2.3
Internal combustion engines	359.2	−0.4	2.8
Lubricating oil	346.2	−1.7	−9.3
Lumber millwork	324.0	0.7	3.4
Material handling equipment	298.9	0.2	1.0
Metal containers	359.4	−0.2	−0.7
Metal mill shapes (nonferrous)	300.0	0.4	−2.2
Metal tanks	299.9	0.7	−1.3
Motors and generators	353.6	0.2	1.0
Motor trucks	314.0	−1.9	3.0
Office and store equipment	157.3	0.3	2.4
Paperboard	292.6	0.8	9.6
Paper boxes and shipping containers	283.9	0.7	6.9
Paper office supplies	243.4	−0.2	2.5
Paint	282.1	0.2	0.8
Plastic resins	293.8	1.3	−2.7
Precision measuring tools	273.7	2.0	2.6
Pumps and compressors	364.8	0.1	1.2
Refractories	370.8	−0.2	−0.2
Rubber belts and belting	333.8	−0.9	−1.1
Scales and balances	233.8	0.0	1.0
Steel products	351.9	0.0	2.0
Switchgear	291.0	1.3	2.5
Textiles, synthetic fibers	148.9	−0.1	−0.7
Textiles, gray fabrics	150.6	−0.1	−0.3
Tires and tubes	231.3	−0.3	−2.0
Transformers and power regulators	237.0	0.2	1.2
Welding equipment	303.4	−0.1	1.4
Wire and cable	359.4	−0.2	−0.7

Industrial prices

(Index: 1967 = 100)

Source: Bureau of Labor Statistics

under control if one eliminates the zigzagging impact of energy." He also pointed to the considerable number of declines over the past month (see table) to back up his non-inflationary assessment. His overall price prediction for the next 3-6 months: continued slow increase of 3-4% at annual rate.

STEEL SCENE

Strongest quarter?

Demand for steel mill products continues to hold up fairly well. Distributors report shipping rates running close to 2% above a year earlier—with the January-March period said to be the strongest ever first quarter.

This trend is likely to persist for another few months. Nearly two out of every three firms responding to the latest Steel Service Center Institute (SSCI) survey feel incoming orders will be up over the next three months—far outweighing the 7% who anticipate a drop in new bookings.

In any event, most distributors attending their annual meeting in Miami a few weeks ago were all smiles—and not because of volume gains. Several also indicated that snugness—especially in sheet—was making for somewhat higher selling prices.

They attributed the firmness to a combination of factors: Import restrictions, the fact that USX is still not back to full production, and the difficulty that other producers were having in meeting USX specifications.

The distributor demand situation is perhaps best summed up by SSCI President Andrew S. Sharkey: "The high plateau in service center shipments is indicative of strong business activity among nearly all customer groups. We're seeing some user inventory rebuilding. The stock-sales ratio for a number of customer groups was recently at an all-time low."

This steel spokesman further adds that the first half outlook is better than originally forecast. On the other hand, Sharkey is concerned about summer and fall when a drop-off could set in—enough to push overall 1987 totals under year-earlier levels.

Similar caution is also suggested by steel buyers responding to the latest N.A.P.M. steel survey. For the first time in four months, the number of PMs planning on a cutback in near-term deliveries outnumbers those anticipating increases.

The number expecting increases is still high—23%, a lot bigger than the single digit numbers of last fall. Nevertheless, it does seem to suggest some demand slowdown.

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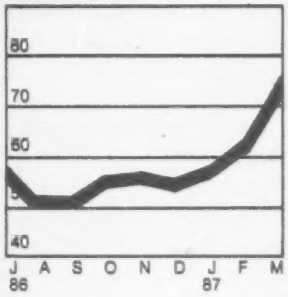
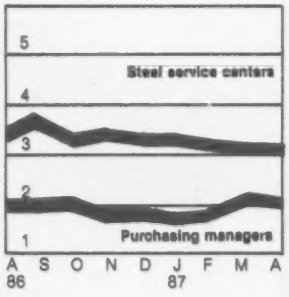
Steel

Operating rates

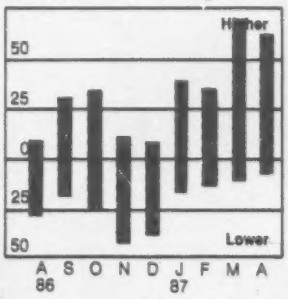


Inventories
(Months supply on hand)

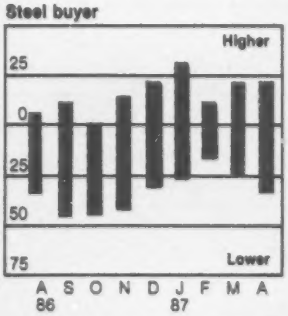


Demand
(Percent of respondents)

Service centers incoming orders



Steel buyer



Import prices
(Compared to domestic)

Steel buyers

20%

LOW 40%

SUBSTANTIALLY BELOW 0%

Service centers (carbon)

ABOVE 0%

BELOW 23%

0-20% BELOW 5%

OVER 20% BELOW 0%

Source: Steel Service Center Institute, NAPM Steel Buyers Committee

er inventorying noted by SSCI's Sharkey could be coming to an end. Fully half of the steel purchasing executives queried now say they will be cutting back on their holdings in upcoming months.

Service centers are also moving carefully when it comes to laying in more steel. Some 32% now consider their stocks to be high—compared to the 5% who rate them as too low.

What makes this caution a bit surprising is that it is occurring at a time when there is some concern about supply tightness. Some 18% of those buying coated sheet, for example, say they're concerned. A few are also keeping a watchful eye on cold-rolled sheet (6%).

In still another development, 27% of PMs now say they plan to become less dependent on imported steel, compared to an average of only 8% over the previous four months.

One reason for this could be price. Buyers in general are finding it more difficult to locate bargains.

Meantime, domestic steel prices could also rise a bit. At least that's what service centers are saying. Specifically, 40% anticipate increases over the next six months—though most say that the increases should be in the 2-5% range.

PROCUREMENT STATUS

Snugger supplies coming

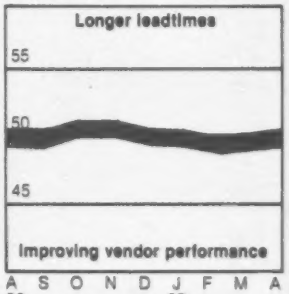
A slight change in the procurement market seems to be in the making. Early spring figures suggest a slight tendency toward snugger supplies. The evidence:

- *PurchasingWorld*'s **leadtime index:** This yardstick of average weekly waits has moved up to 51—slightly above the neutral 50 level when stretchouts and shrinkages cancel each other out. Although the rise isn't much, it signals a change from readings of previous months.
- **Short supply list:** Four items, the largest such number in years, now appear on the N.A.P.M. list. Included this time around are steel, butadiene, styrene, and phenol.
- **Speed of delivery:** Roughly 13% of N.A.P.M. survey respondents say they are currently experiencing slow deliveries—far more than the 5% who note some speedup over the past month. In any case, the 8% gap here is far greater than the average 3% differential noted over the previous two months.

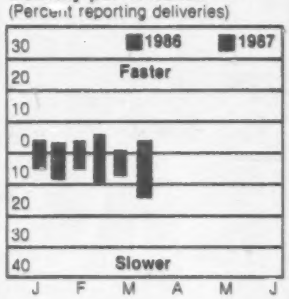
Monthly procurement status report

Leadtime index

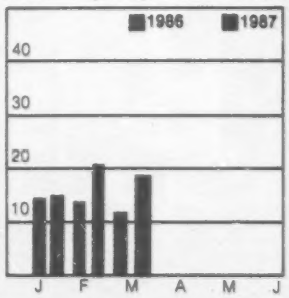
A "diffusion" index based on 158 key commodities. Above "50" indicates a tendency for leadtimes to stretch out. Below "50" suggests improving vendor performance.



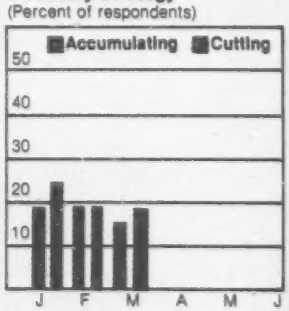
Delivery performance
(Percent reporting deliveries)



Forward commitments
(% committing 90 days or more in advance)



Inventory strategy
(Percent of respondents)



Source: NAPM

BUSINESS DATATRAK

Why the change? In large part it may be due to reduced imports—as higher overseas quotes, engendered by a weaker dollar, put more emphasis on domestic procurement. Quotas for steel and semiconductors have tended to aggravate this situation.

But imports are not the only reason for the shift toward snugger supplies. Another factor could be somewhat improved business activity in recent months.

Some 41% of the respondents now say their firms are experiencing a rising new order pattern. That's the highest such figure in nearly two years.

The completion of inventory paring also adds to the demand figures. In any case, buyers who are paring are now pretty much balanced out by others who are adding stocks—a major shift from last year when almost all said they were cutting back.

Still others point out that the items in snug supply are likely to prove temporary—primarily because operating rates are still relatively low (80% on average—about 5% under the level when shortages tend to become endemic).

Finally, some PMs say that business may soon take a breather. As one East Coast buyer puts it, "Summer is traditionally a slow period—and there's little to indicate that things will be different this time around."

Leadtimes and availability

Chicago: Steel sheet, coated sheet, and bar are tight for other than regular customers. Special copper and brass sheet and coil are out to 5-7 weeks. Chlorine has also stretched to a week.

Cleveland: There's a slight stretchout in plastic packaging material (to 4-6 weeks)—and a slight shrinkage in polyethylene resin (to 2). Other delays: Softwood (1-3), hardwood (2-3), skids (1-3), corrugated boxes (2-3), maintenance paint (2), cold-finish aluminum (8), and glassine papers (4-5).

Los Angeles: Modest stretchouts with these new higher leads: grey iron castings (6-8), brass castings (8-10), stainless steel coil (14-16), custom storage tanks (10-12), and domestic fasteners (7-9). Foreign fasteners are holding at 16-18 and galvanized steel at 12-14.

Houston: Imported galvanized steel coils are out to 128 days. So are domestic waits. Other current leadtimes (in days): high density polyethylene and polypropylene (32), corrugated cartons (24), steel fasteners (14), plastic bottles (42), and 4-color process printing (42).

Philadelphia: Nickel steel alloy bar is in 4 weeks (to 10). Edging out are stainless steel flat-rolled strip (to 8-9), and stainless extruded tubing (to 6-8).

Pittsburgh: These weekly leads prevail: paper bags (4-6), multiwall bags (6), corrugated and folding cartons (3-4), drums (1), chipboard (3-4), waterproof papers (8), packaging seals (1-2), polyethylene (5), polyvinyl chloride (6), and alloying materials (2).

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BUSINESS DATATRAK

Leadtimes (in weeks)

	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	4	4	4
C-R Sheet (Chgo)	8	8	7½
Plate (Phil)	3½	3½	3½
Plate (Chgo)	4	4	3½
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	5½	5½	5½
H-R Bars (Chgo)	6½	6½	4
Cold-Drawn Bars (Phil)	5½	5½	5½
Galvanized (LA)	13	13	13
Galvanized (Chgo)	12	12	6½
Structurals (Chgo)	4½	4½	4½
Structurals (Hous)	11	11	17
Tubing (Phil)	5½	5½	5½
Grey Iron Castings (LA)	7	4½	7
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	6	6	6
Pipe, Carbon (Hous)	17	17	17
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	16	16	14½
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	7	7	7
ICs (Linear) (Phil)	4½	4½	9
Motors (Phil)	9	9	9
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	9	9	9
Relays (Chgo)	15	15	15
Resistors (Chgo)	9	9	9
Resistors, Wirebound (Phil)	5	5	5
Transformers (Chgo)	10	10	10

	Now	Month ago	Six months ago
LUMBER			
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	2½	2½	2½
Plywood (Chgo)	3	3	3
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	2	2	2
Softwood (Phil)	⅓	⅓	⅓
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Naphthalene (Chgo)	2	2	2
Paint (LA)	4	4	4
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Cleve)	2	2	2
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Cleve)	3	2½	2
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	2	2	2
PVC Resin (Pgh)	6	6	6
Titanium Dioxide (LA)	1	1	1
PACKAGING			
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Cleve)	2½	2½	2½
Cartons, Corrugated (Hous)	2	2	2
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3

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	Now	Month ago	Six months ago
Shrink Film (Chgo)	6	6	6
Shrink Film (Clev)	1	1	1
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	1	1	1
Strapping (Pgh)	3	3	3
PAPER			
Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	½	½	1
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½
NONFERROUS			
Aluminum Coil (Chgo)	13	13	11
Aluminum Plate (Chgo)	12	12	12
Aluminum Sheet (LA)	4½	4½	4½
Aluminum Sheet (Chgo)	13	13	11
Brass Castings (LA)	9	7	9
Brass Rods (Chgo)	9	9	9
Brass Sheet (Chgo)	6	5	5
Brass Tube (Chgo)	7	7	4
Copper Fittings (LA)	3½	3½	3½
Copper Mill Prod. (Pgh)	6	6	6

	Now	Month ago	Six months ago
Copper Tube (LA)	7	7	7
Copper Tube (Phil)	5½	5½	5½
Lead (Pgh)	2	2	2
Magnesium (Pgh)	2	2	2
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	2	2	2
Wire, Specialty (LA)	5	5	5
Zinc (Pgh)	2	2	3
MISCELLANEOUS			
Bearings, Domestic (Phil)	2	2	2
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	50	50	48
Compressors, Reciproc. (Hous)	39	39	39
Fasteners (Chgo)	1½	1½	1½
Fasteners (LA)	8	7	7
Fasteners, Std. (Phil)	3	3	3
Heat Exchangers, Carbon-alloy Steel (Hous)	21	21	21
Heat Exchangers, Hi-pressure (Hous)	24	26	26
Insulation Mat'l. (LA)	7	7	7
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	1½	1½	1½
Pumps (Hous)	19	19	24
Pumps (LA)	11	11	11
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	4
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	4	4	17
Welding Supplies (Hous)	5	5	5

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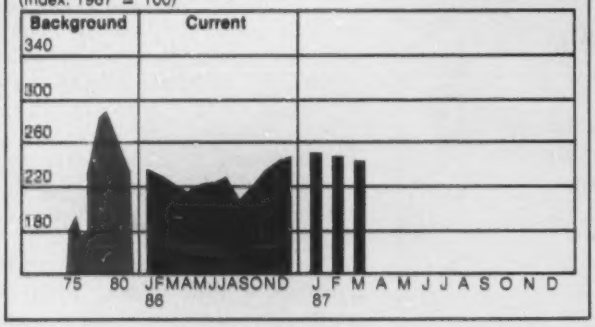
BUSINESS DATATRAK

Raw material price barometer

Latest month 246.3
Month before 247.2
Year ago 223.1

(Index: 1967 = 100)



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	16.50	15.70	23.95
Steel, bars, Pitts., cwt.	16.50	15.70	23.95
Steel, bars, C.R., Pitts., cwt.	19.45	19.45	31.00
Steel, plates, Pitts., cwt.	18.25	18.25	18.25
Steel, plates, H.R., Pitts., cwt.	18.25	18.25	18.25
Steel, sheets, C.R., Detroit, cwt.	26.90	26.90	25.15
Steel, strip, C.R., Chi., cwt.	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	.630	.625	.613
Antimony, N.Y., dealer, lb.	1.12	1.08	1.35
Beryllium-copper, cost ingot, lb.	5.65	5.65	5.35
Brass, red, 85%, [sheet], lb.	1.32	1.31	1.32
Brass, yellow, [sheet], lb.	1.27	1.26	1.27
Cadmium, N.Y., dealer, lb.	0.95	0.95	1.30
Copper, electrolytic, wire bars, refd., lb.	.68	.67	.68
Copper sheet, over 24 in., lb.	1.41	1.40	1.41
Lead, common, N.Y., lb.	.26	.26	.19
Magnesium, pig ingot, [99.8%], lb.	1.53	1.53	1.53
Mercury, 20 fl. lots, N.Y., fl.	260.00	235.00	265.00
Molybdenum, oxide, dealer, lb.	3.05	3.10	2.65
Nickel, cathode, dealer, lb.	1.75	1.75	1.90
Platinum, dealer, oz.	576.00	525.00	402.00
Silver, N.Y., oz.	6.90	5.51	5.17
Tin, N.Y., dealer, lb.	3.15	3.13	2.70
Zinc, Prime West, East St. Louis, lb.	.37	.38	.33
Zinc, die casting alloy, No. 3, lb.	.445	.445	.415
PAPER			
Uncoated book #3 offset, ton	860.00	860.00	850.00
Watermarked bond, ton	985.00	985.00	985.00
Gummed sealing tape, carton	16.51	16.53	16.40
Shipping sacks, ton	390.00	390.00	390.00
Solid bleached paperboard, ton	620.00	620.00	550.00
Kraft linerboard, 42 lb., unbleached, ton	350.00	350.00	290.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.242	.230	.228
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.150	1.080	1.045
Cotton middling, 1", N.Y., lb.	.540	.540	.630
Printcloth, 48", 80x80, N.Y., spot, yd.	.97	1.00	.65
Army duck, 37", 13 oz., yd.	1.405	1.405	1.480
Blended printcloth, 64", 78x54, yd.	.90	.83	.72
20s combed yarns	1.77	1.77	2.05
Wool 64s, Staple, lb.	2.55	2.12	2.00
CHEMICALS			
Acrylonitrile, tanks, lb.	.395	.395	.395
Ammonia, anhydrous, tankcars, Gulf Coast, ton	105.00	80.00	100.00
Benzene, petroleum, tanks, Houston, gal.	1.55	1.58	.670
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	.58	.58	.58
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.91	.91	.91
Methanol, sny., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.28	.28	N.A.
Naphthalene, crude, tanks, lb.	.22	.22	.22
Phthalic anhydride, tanks, lb.	.27	.27	.27
Polyethylene resin, low density liner film grade (market place), lb.	.285	.285	.345
Polypropylene, homopolymer grade (market price), lb.	.35	.35	.37
Polystyrene, general purpose grade (market price), lb.	.42	.39	.33
Polyvinyl chloride, pipe grade (market price), lb.	.315	.315	.305
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.38	.33	.21
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	152.50	152.50	157.50
Sulphuric acid, 66%, commercial, tanks, ton	66.86	66.86	66.86
Titanium dioxide, anatase, reg., carlots lb.	.77	.77	.73
Xylene tanks, gal.	.795	.795	1.36
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	328.05	327.30	307.20
Lumber 2x2 pine, mbf, cl	327.84	322.05	305.35
Plywood, plyform, ¾", msf, cl	575.00	566.45	590.60
Plywood, ⅜", msf, cl	378.60	381.90	381.20
Cement, bulk, ton, tl	63.66	63.25	65.84
Sand, ton, cl	6.72	6.82	6.46
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	48.43	48.15	48.33
Crushed stone, 1½", ton, cl	8.18	8.08	7.92
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.84	0.84	0.83
Gypsum sheathing, ½"x1"x8", msf, tl	206.94	207.84	213.87
Brick, common, per thousand, tl	187.35	188.10	186.71
Asphalt paving, AC-20	128.04	124.66	167.53
Concrete sewer pipe, 12", prem. joint, per foot, cl	7.13	7.37	7.07
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf., bbl.	16.25	14.00	10.50
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	19.50	17.50	16.50
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	.555	.520	.585
Gasoline, 94 oct., reg., Chi., tank car, gal.	.538	.518	.435
Heating oil, No. 2, Chi., bulk, gal.	.501	.483	.590
Heating oil, No. 2, N.Y., bulk, gal.	.490	.450	.450
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.50
Jet kerosene, gal.	.453	.475	.400
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	.245	.245	.290
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	77.00	80.00	74.00
Steel, No. 1 hvy., dlvd., Chi., ton	71.00	73.00	73.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	.575	.580	.580
Copper, No. 2, East, wholesale buy, dlvd., lb.	.495	.500	.500
Brass, red, East, wholesale buy, dlvd., lb.	.535	.540	.540
Brass, yellow, East, wholesale buy, dlvd., lb.	.330	.330	.300
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.385	.385	.390
Alum., mixed clip., E., wholesale buy, dlvd., lb.	.420	.420	.415
Zinc, old, East, wholesale buy, dlvd., lb.	.200	.200	.150
Lead, clean solids, East, wholesale buy, dlvd., lb.	.155	.155	.105
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	30.00	25.00	12.00
Paper, old corrug. box, dlr., N.Y., ton	25.00	15.00	12.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	.12	.12	.11
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	.200	.120	.125

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

15 ways buyers can cut steel costs

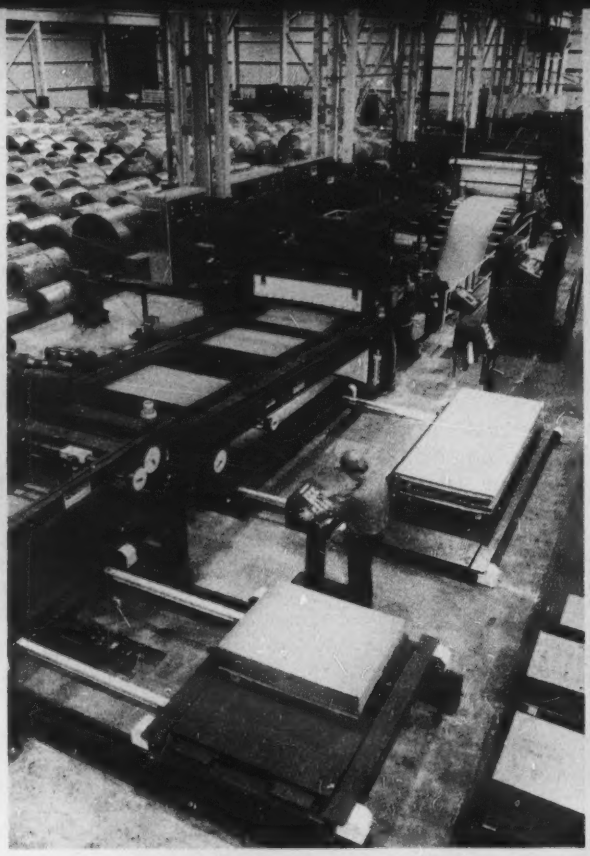


Photo courtesy of Joseph T. Ryerson & Son Inc.

Thomas F. Dillon, C.P.M., senior editor

There are several ways a buyer can lower the cost of steel, say steel service center executives, and negotiating a lower price is one of them. But costs also can be reduced by "buying smarter"—taking some obvious and not-so-obvious steps to lower costs. The savings that can be generated by changing buying habits—by buying smarter—can be much greater than a buyer could hope for under the most favorable negotiating circumstances.

In a series of interviews with steel service center executives across the country, the following suggestions were offered on how steel buyers can lower the cost of steel purchased through steel service centers.

■ **Limit the number you use.** Carefully selecting a smaller number of suppliers will give you increased volume (and clout) with remaining suppliers, and it will help forge a closer relationship.

Ideally, in such a close relationship, the steel buyer shares information with the steel service center on sales forecasts, production schedules, new products, new orders, cancelled orders, expansion plans, and other data that will give the service center a better fix on the buyer's steel requirements. This in turn will help the service center plan its materials purchases and capital investments.

In such a relationship the service center will keep the steel buyer informed of pending price changes, new lines, discontinued lines, new applications, new materials, and new processing capabilities that will benefit the buyer.

Achieving this close relationship, say several steel service center executives, requires a change in the traditional adversarial relationship between buyers and sellers. This is already happening in many industries. As Frank Subjack, vice president and general manager of Eastern service centers, Tubular Steel Inc., Princeton Junction, NJ, says, "We are in this together. It is not 'you and me,' it's 'us'."

■ **Get involved in product design.** "Purchasing has to get directly involved in the product design-engineering-manufacturing process as a member of a design committee, task force, etc. In too many companies," says Michael Simpson, chairman, A.M. Castle & Co., Franklin Park, IL, "purchasing is left out and this is foolish. Who can provide better input about what is available and practical than purchasing?"

Without purchasing's input in the design of a product, a company may wind up spending time and money trying to track down materials and products that are either not available, not suitable, or not economically feasible for the application. Sometimes suitable alternatives are not even considered.

■ **Avoid overspecifying.** Every steel service center has a litany of overspecification horror stories. These generally involve specifying expensive products for a function that could have been performed just as effectively with a much less costly product.

Overspecification is usually a result of ignorance, carelessness, lack of knowledge of new products or substitutes, bad habits, outdated spec sheets, new personnel not familiar with the product, and just plain poor buying practices.

This is why service centers often request information on how the material is to be used. Some steel buyers resent this, either because they think their judgment is being challenged, because they believe the service center is trying to sell them something more expensive, or because they believe it is none of the

service center's business. "Many think we have ulterior motives," says Subjack, "but we don't. We want to help, knowing that if we do, chances are they'll come back."

Sometimes overspecification is a matter of degree—asking for "special" quality when "commercial" will do the job; specifying critical tolerances when standard tolerances (still pretty tight) will do as well; requesting a leveled product when a flattened product is sufficient, or asking for precision sawing when a sawed product would be adequate.

■ **Give service centers the right information.** "A service center," says Simpson, "can only perform on par with the accuracy of the information it receives from its customers." One industry observer suggests that detailed product application information be routinely included on the purchase order.

■ **Give plenty of leadtime.** For the same reasons that a purchasing manager wants to get as long a leadtime as possible from his requisitioners (so he can have enough time to scout sources adequately and plan his purchases properly) the service center wants as long a leadtime as possible from its customers. Since the service centers also process metal, knowledge of a customer's immediate and long-term materials needs can help it plan investments in steel processing equipment and in material purchases.

■ **Ask for what you need.** "For example," says Jack Foster, president, Joseph T. Ryerson & Son Inc., Chicago, "if you don't need test reports, special packaging, extra fast delivery service, etc., don't include these on your purchase order." In many cases, over time, these specials have a way of becoming "standards" and are shown on all purchase orders more out of habit than need—and they all cost money.

Every purchasing department should review these "specials" to see whether or not they are still needed.

■ **Make use of service center expertise.** Chris Turman, ceo, Morris, Wheeler & Co. Inc., Philadelphia, tells of a recent meeting he had with a contractor in which the contractor presented some drawings for a job he was going to bid on. The specs called for seamless tubing, several dollars per linear foot more expensive than welded tubing. The tubing was to be used to carry waste water.

"Someone, possibly with a background in another industry," says Turman, "apparently overspecified, since the welded tubing would certainly have done the job." That contractor now plans to submit two bids, one according to specification, and another as an alternative.

"This is what it takes," says Turman. "You have to get the customer to come in, sit down, and discuss his problems with you to see if you can come up with a solution. To reach this stage you have to build confidence with your customer and develop friendships. If we can help people solve their problems, they're going to come back with other problems."

■ **Rotate buying assignments.** Subjack suggests buyers cross train on each other's jobs. Not only will this help fill in staffing holes during vacations and days off, it will also promote buyer and department expertise with steel buyers able to exchange views on materials, suppliers, etc. Subjack also makes this suggestion for the steel service center industry.

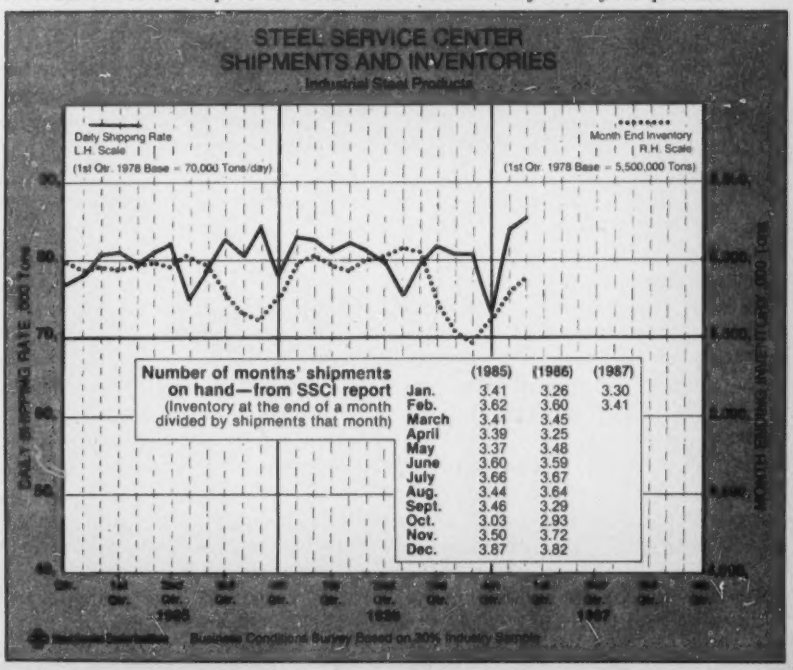
■ **Computers simplify paperwork.** With the increased use of computers in purchasing applications, several service centers offer electronic data interchange (EDI) hookups. Not only can purchasing transmit orders electronically, eliminating paperwork and even use of the phone if desired, in some cases buyers can tap into a steel service center's inventory records to determine the availability and location of the products they want to buy.

Conversely, with the buyer's approval, EDI can enable a service center to check customer inventory levels, and then use that information for automatic restocking plans or to plan its own purchases.

These services, becoming increasingly available and sophisticated, will be one more bond in the service center-customer relationship.

■ **Consolidate orders.** A smaller order is more expensive, on a per pound basis, than a large one. As basic as this seems, service center executives report that some steel buyers do not take sufficient advantage of volume ordering to lower costs. Certainly there are many instances where only a small quantity is needed or where a small order will do for a long time. But if there are repeated

Steel service center shipments ran at a near-record rate for the first quarter.



small orders of the same product, week after week, a steel buyer can save money by ordering less frequently and in larger quantities.

Another way to enjoy the cost-cutting advantages of consolidation is through contract buying, whereby a company contracts to buy a certain quantity of a given product or products from a specific steel service center over a given period of time, usually a year, at a predetermined price. With the assurance of a guaranteed volume of business, service centers are in a position to pass along part of their savings in the form of a lower price per unit. An extra advantage for the buyer, and possibly the more important part of the transaction to him, is the reduction of paperwork as a result of simplified purchasing. Check with service centers to see if they have such programs available.

Whenever such programs are established, says Simpson, make sure all people who will be involved—accounting, receiving, manufacturing, etc., are well-informed. "To make such a program work," he adds, "you have to have everybody buy in, not just purchasing."

■ **Simplify.** Tubular Steel's Subjack says there is money to be saved in simplification. "We can learn from the Japanese. Look at the way they do business. You say 'I'll buy 1,000 tons of steel.' They'll shake hands. That's it. You're going to get your 1,000 tons. But to buy 1,000 tons from a U.S. mill you need all kinds of documentation. Attorneys and accountants have to get into it. Weeks go by and you are still bogged down in the paperwork."

Subjack's advice: Keep it simple—the simpler the better. "But to do that," he says, "you have to trust one another. You have to earn that. It isn't earned overnight."

■ **Use service center expertise.** John W. Jorgensen, president and cao, Earle M. Jorgensen Co., Lynwood, CA, points out that several steel service centers have quality assurance programs and statistical process control capabilities. As confidence builds between service centers and their customers in the quality of the product, customer inbound inspections can be reduced or eliminated—an obvious cost saving.

■ **Improve forecasting ability.** "Accurate forecasting of demand by our customers," says Tom Boehm, executive vp, metals distribution, National Steel Service Center Inc., Parsippany, NJ, "is the engine that drives our own purchasing program and our ability to support our customers' needs. We need a good relationship with our mills, and we need a good relationship with our customers if we are going to be successful in lowering their costs."

■ **Visit service centers.** One minimill executive suggests that steel buyers visit service centers regularly to meet their personnel, look over their inventory, and check out their processing capabilities. These visits can help a steel buyer understand just what an order involves.

■ **Use service center processing.** Jack Foster at Ryerson says that today manufacturers have to do more with less in order to compete in a world market. "Today's steel processing equipment," says Foster, "is more sophisticated. It's faster, it's more accurate, it's more productive, it's more complex and it costs more." If it costs us more, says Foster, it costs the manufacturer more, too, so there is more reason for a manufacturer to look to the service center for his processing than to tie up capital in expensive processing equipment of his own.

In today's global marketplace, purchasing has a special challenge, says Don McNeeley, executive vp, Chicago Tube and Iron Company. This is because of today's compressed manufacturing profit margins. He sees acquisition costs as the critical factor in profitability.

Years ago, says McNeeley, in a primarily domestic market, if a manufacturer paid too much for materials, chances are the error could be offset by an increase in the selling price. Increased costs were simply passed along to the buyer. Not so in today's global marketplace, he says. With strong competition, such costs cannot be passed along. This is why many industry spokesmen contend that today more contribution can be made to a company's bottom line "by buying right than by selling right." ***PW***

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PMs have leverage to keep prices down

Prices may be edging up a bit, but most buyers remain optimistic about holding 1987 price boosts to much more modest proportions.

Top industrial purchasing managers responding to a new nationwide *PurchasingWorld* survey say that procurement costs will be higher, but not all that much higher considering the fact that 1987 won't have the benefit of last year's falling oil prices and a strong dollar.

As one purchasing executive puts it, "I don't think we can match last year's performance but the combination of continued competitive markets, ample capacity here and overseas, and relatively restrained cost increases should still provide us with plenty of bargaining leverage."

Some of the new survey's more specific findings:

■ **Overall price increases:** The average hike for 1987 as a whole is estimated at 3.1%—only about 1% above the 2.2% advance experienced by these same respondents over the past year.

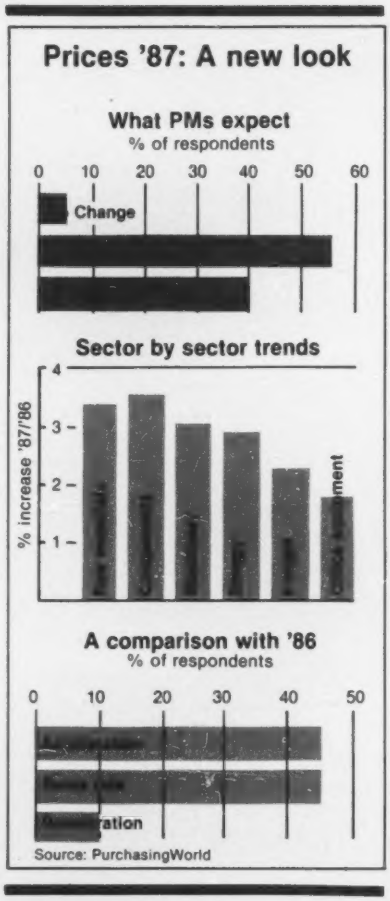
All in all, modest acceleration is expected by 45% of the respondents. And most of the remaining buyers see increases coming in at the same clip as in 1986 (see accompanying chart).

The latest figures are also pretty much in line with estimates for the current year made last December when a similar *PurchasingWorld* survey was taken. At that time, the 1987 increase for all categories was pegged at 3.4%.

Equally significant is the fact that not one single PM expects procurement cost increases to run more than 6%. In fact 60% still plan on advances of 3% or less.

The only deterioration from the December 1986 survey is that this time around no one is anticipating any overall decrease—vs. the 5% who felt that way on the last survey.

■ **Sector-by-sector price increases:** Generally speaking, there's only modest (1.5%) variation among the six major groups monitored by *PurchasingWorld.* Heading the list is the category of component parts where 1987 boosts are expected to average out near 3.5%.



Other anticipated increases are to be found in raw materials (3.4%), machinery (3.0%), energy (2.9%), freight (2.3%), and office equipment (1.8%).

These findings are again in line with the earlier survey (see December 1986 issue, page 24), when raw materials and component parts were also expected to lead the pack.

■ **Individual product trends:** Areas expected to sport significant price boosts include paper packaging, steel, aluminum, plastic, some organic chemicals, precision machined parts, and valves. On the other hand, computers and electronic components are mentioned as likely candidates for price declines.

Asked to comment on why prices would be accelerating—albeit by a very modest rate—buyers cited several factors in addition to higher oil tags and a weaker dollar. Several, for example, pointed to higher vendor operating rates, somewhat improved demand, rising insurance costs, and the profit squeeze faced by some sellers who haven't had a price boost in years.

One packaging buyer also points to indirect "export" effect of the weaker dollar. Specifically, he blames much of the rise in linerboard—and hence in corrugated cartons—on increased board exports engendered by today's relatively cheap dollar.

But buyers insist that they intend to fight advances—no matter what the cause or combination of causes. Many buyers are demanding detailed cost justification for any proposed boost. One PM tells of sending letters to all vendors requesting no increases. "While this doesn't work in all cases, it at least puts our suppliers on notice; we've let them know what we want and expect."

In addition to the above, many PMs continue to stress long-term contracts, blanket orders, consolidation of purchases with fewer vendors, and price guarantees ranging from a few months to a year. Still other buyers say they are working closely with vendors to reduce production costs.

The consensus seems to be that while it is still a buyers' market, as one midwestern purchasing executive puts it, PMs can't beat back every price boosting attempt. But continuous pressure from purchasing has managed to keep those increases very low—and should continue to do so in the next several months. **PW**